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SUBJECT: RESOURCE NATIONALISM AND NORWAY

REF: A. OSLO 1086

¶B. STATE 150999
¶C. OSLO 1001

Classified By: DCM Kevin M. Johnson, Reasons 1.4 (b) and (d)

¶1. (C) Summary. Norway, the world's third largest gas exporter and fifth largest oil exporter, adheres to energy resource policies which work to maximize governmental financial returns while ensuring its strict stewardship of natural resources. Hailed internationally as a transparent, predictable energy supplier with stable governmental policies, the real picture is complex. The negative elements of resource nationalism involve anti-competition issues stemming from state-ownership and the GON's licensing regime. In other respects, Norway's status as a dependable, reliable energy producer is justified. For example, Norway neither appropriates foreign investments, nor arbitrarily renegotiates existing energy contracts. Major American energy companies operating locally, despite voicing some criticism, generally praise the Norwegian energy regime. Small and mid-sized U.S. companies may find future exploration opportunities in the Norwegian Continental Shelf (NCS)'s mature license areas. End Summary.

National Commitment to Resource Protection

¶2. (C) Understanding Norwegian resource policy necessarily involves recognizing the Norwegian dedication to safeguarding, and sharing, public resources. The country's strident commitment to a strong public trust doctrine, which aims to protect the environment for generations, evidences the core value of resource protection that affects all facets of Norwegian society. The Norwegians view of the environment as a legacy for future generations is repeatedly demonstrated. For example, coastal areas may be freely accessed, as the beachfront (even on private property) is open for public use. With certain limitations, Norwegians may even camp on private property for a maximum of three days (although this opportunity is admittedly rarely exercised). The commitment to the greater public good, and sense of communal ownership, is also clearly shown in the country's energy policy.

¶3. (C) From a political perspective, environmental policy is a crucial issue, embraced by all the major parties (with the exception of the Progress Party), and one with the power to make or break governments and ministers. In a recent cabinet reshuffle Environmental Minister Bjornoy was forced out of her position in large part as a response to criticism of the current government's lack of sufficient progress in environmental issues. During another cabinet shuffle, Petroleum Minister Enoksen resigned, in part because he

didn't support renewable energy initiatives enough. Reftel C.

¶4. (C) While mindful of environmental concerns, the underlying motivation behind Norwegian energy policy remains wealth accumulation. The state sees vast NCS resources as Norwegian property, and private companies need explicit GON license approvals to develop the shelf. Although companies are allowed to propose license area suggestions in advance of a licensing round, the GON ultimately determines where energy extraction takes place. (Note: The GON will accept proposed 20th round license area suggestions (including, with limitations, the areas in the North, Barents and Norwegian Sea) by January 8, 2008, with a projected award date in the spring, 2009).

American Companies on the Scene

¶5. (U) The major U.S. energy companies conducting offshore exploration in Norway are ExxonMobil, ConocoPhillips, Chevron, Marathon and Amerada Hess. Additionally, Halliburton, Baker Hughes, National Oilwell Varco, Weatherford, BJ and General Electric are significant U.S. companies servicing the Norwegian petroleum industry. A mid-sized U.S. oil company, Nobel Energy, recently announced its intent to open an Oslo office in 2008. Based on 2006 revenues (with current exchange rates), the U.S. companies with the largest presence in Norway are ExxonMobil (13.9 billion USD), ConocoPhillips (6.6 billion USD) and General Electric (combined division revenues of 1.5 billion USD).

Openly Subjective Licensing Process, High/Nonexistent Taxes
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¶6. (C) Norwegians award licensing rights to private companies under an admittedly subjective awards regime, as

confirmed in a recent meeting with Petroleum Ministry officials Director Generals (Reftel A). Although the GON favors Norwegian participation with "all options being equal," officials have stressed that the GON welcomes foreign company competition. Accordingly, the GON has not adopted the highest submitted bid requirement as the decisive factor when awarding licenses. Rather, the licensing system takes many elements into account, including previous NCS development experience and the company's ability to provide the technology required for immediate and long-term field development. These factors also encourage seasoned bidders, familiar with NCS operations and dealings with the GON, to enter into the bidding process.

¶7. (C) The Norwegian tax structure encourages private industry to maximize field development, while ensuring protection of energy resources. In this sense, GON policy tempers a nationalist policy with pragmatic commercial realities. The GON levies a 78 percent tax on private companies making a profit from the NCS (composed of a 28 percent standard corporate tax and a 50 percent petroleum tax). Although taxes are high, Norwegian Petroleum Ministry officials point out that no taxes are assessed until a company is profitable. Given that, GON officials believe Norway is "one of the least expensive countries to do (energy) business in." The state itself is burdened with early development costs through tax absorption. Frontier fields (such as the subject of the prospective 20th round) are not affected by the immediate timelines assessed to license winners of more nature fields. These mature fields, the focus of more frequent licensing rounds, generally involve strict development deadlines (e.g. developing the field within two years or having the licensee forced to sell or transfer the license).

¶8. (C) Given Norway's commitment to responsible development of its national resources, foreign companies with a long-term prospective are preferred. Foreign companies with immediate profitability goals do not find the Norwegian system particularly economically attractive. Stressing the sense of "partnership," local U.S. energy company representatives

expressed a Norwegian preference for dealing with known companies, perceived by the GON as willing to adhere to long-term goals. Aside from companies with proven track records, industry sources note that the GON favors companies which adhere to sound environmentally-responsible practices, and have strong health and safety records.

¶9. (C) American companies doing business in Norway voice some concern about the subjective Norwegian licensing structure. For example, a long-standing rumor in energy circles involves ConocoPhillips. In 1971, the company began offshore development of the massive Ekofisk field in the North Sea. The GON allegedly encouraged ConocoPhillips to explore fields surrounding the field, in advance of a licensing round. Viewed as taking its early dominant role for granted and not acting as a team player, the company was not awarded a license, despite its exploration efforts. This rumor persists even today, even though ConocoPhillips maintains one of the largest foreign operations in Norway, with the Ekofisk field projected to remain active through 2035 (nearly 40 years longer than anticipated). Even if the rumor is true, US companies are quick to point out that the bidding system is open, and that potential players know the rules.

Anti-Competition Looming?

¶10. (C) Despite GON claims to the contrary, American companies are worried about anti-competition following the recent merger between the Norwegian state-owned oil and gas giants Statoil and Norsk Hydro. Their concerns focus on the potential market monopoly of the new entity, StatoilHydro. The merged company, of which the GON holds a 62.5 percent ownership interest, has an 80 percent market share of NCS operatorships. The Norwegian dominance of the NCS development, both in operations and supply, trouble industry representatives. The GON is seeking to allay concerns that the merged entity will receive unfair government preferences. As described in Reftel A, Norwegian Petroleum Ministry officials suggest that the number of future operatorships awarded to the merged entity would actually drop, and that competition will be strongly encouraged. Other related anti-competition concerns stem from the recent 30 percent GON buy-in of Aker Holding AS, which holds a 40 percent ownership interest in AkerKvaerner, the largest equipment supplier to Norway's oil and gas industry. The 800 million USD investment, slated for Parliamentary approval by the end of 2007, was publicly promoted by the government's call to ensure national ownership in key businesses. But, GON officials stress that even in light of this buy-in, US companies should not be concerned of blocked market access, or undue government interference.

Comment

¶11. (C) The country's strong resource protections (motivated in no small part by the cultural sense of environmental stewardship) are reaping huge dividends. Although Norway's increasing state-ownership and licensing policies raise concerns of resource nationalism, the GON states that it wants to expand competition for NCS development. Perhaps motivated by industry perception that Norway offers limited energy development opportunities, the GON is touting greater openness to smaller to mid-size companies. Opportunities for such companies are found on mature license areas. (Note: These areas, involving relatively modest returns based on higher front-loaded investment costs, and uncertain success potential, do not make financial sense for the large energy companies.) This development will perhaps give such companies the necessary expertise, and experience with the bidding process, to break into larger fields. Estimates reveal that a quarter to a third of the potential NCS reserves are yet unknown, offering considerable opportunities to both large and smaller companies willing to play by the Norwegian rules. Local American companies are willing to do just that, even with

murmurs that the GON may encourage energy players (such as the ConocoPhillips example) to commit to resource exploration under an unrealized expectation of an awarded license. As one local U.S. energy representative recently pointed out, "Norway isn't Venezuela." Companies do not fear that contracts will suddenly be renegotiated, or outright broken.
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